

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

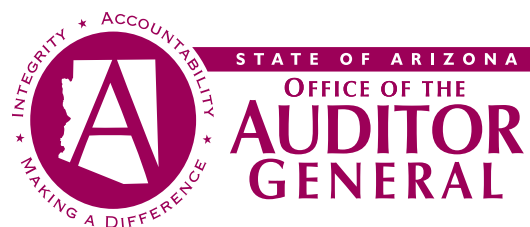
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Compliance Review

# **Maricopa Unified School District No. 20**

Year Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

December 3, 2008

Governing Board  
Maricopa Unified School District No. 20  
45012 West Honeycutt Avenue  
Maricopa, AZ 85239

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General



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# INTRODUCTION

Maricopa Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$50.4 million it received in fiscal year (FY) 2007 to provide this education.

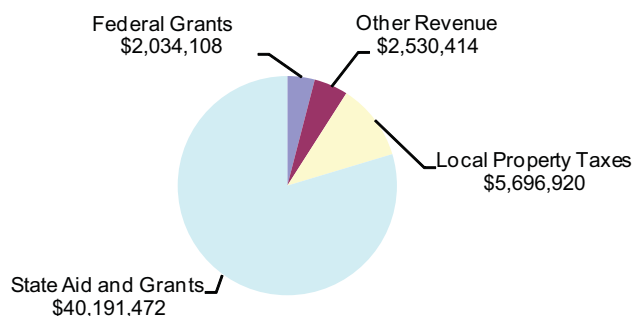
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2007

County: Pinal  
Number of Schools: 6

Number of Students: 4,125  
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007 and Maricopa Unified School District No. 20 Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2007.*

# FINDING 1

## The District's controls over competitive purchasing and expenditures should be improved

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines. Specifically, for purchases above the competitive sealed bid threshold, the District did not always retain documentation

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

verifying that sealed bids were stamped and kept unopened until bid opening. In addition, the District did not retain written documentation of the Governing Board's determination that it was more advantageous to request competitive sealed proposals than competitive sealed bids. For requests for proposals where only a single response was received, the District did not retain documentation to support that the price submitted was fair and that all other vendors had a reasonable opportunity to respond, or there was not adequate time for resolicitation. Also, the District did not always obtain at least three oral price quotations or at least three written price quotations for purchases that required them.

Further, the District did not always pay for goods in the correct fiscal year. In addition, several district funds had deficit cash and fund balances, and the District's Advice of Encumbrance included encumbered amounts for several funds in excess of the funds' unexpended budget balances.

## Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Retain documentation to support that all bids were date- and time-stamped upon receipt and held until the date and time set for bid opening.
- Obtain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing requests for proposals.
- Award a contract to the only responsive bidder only after determining that the price submitted is fair and reasonable, and that either other prospective vendors had reasonable opportunity to respond, or that there is not adequate time for resolicitation.

- Obtain oral price quotations from three or more vendors for purchases costing between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases costing between \$15,000 and \$33,689.
- Ensure expenditures are recorded in the correct fiscal year.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Ensure that the total amount encumbered on the District's Advice of Encumbrance for each levy fund is less than or equal to the unexpended budget balance for the fund.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.



# FINDING 2

## The District should strengthen controls over its cash and credit card transactions

Because of the relatively high risk associated with transactions involving cash and credit cards, school districts should establish and maintain effective internal controls to safeguard cash and restrict credit card usage to district purposes. These controls should require that bank account and credit card responsibilities are adequately separated, that cash transactions are properly supported, and that bank accounts are used as prescribed by statute. However, the District did not have strong controls over its cash transactions and credit cards. Specifically, the District did not always deposit monies with the County Treasurer in a timely manner, and \$335,357 of the District's bank balance was uninsured and uncollateralized as of June 30, 2007, at which date Federal Deposit Insurance Corporation (FDIC) coverage was \$100,000 per depositor. In addition, the District had reconciling items greater than 1 year old still outstanding on its bank reconciliations. Further, the District did not adopt a written policy with established dollar limits governing the use of credit cards, and the auditors could not always determine whether credit card purchases were for an authorized purpose. Finally, the District did not always retain credit card receipts, and when receipts were retained, the employee making the credit card purchase was not always clearly identified on the receipt.

The District's lack of credit card policies and documentation for credit card purchases left district monies susceptible to theft or misuse.

### Recommendations

To strengthen controls over district monies and credit card transactions, the District should:

- Deposit monies intact daily when significant, or at least weekly, in the appropriate district bank account or directly with the County Treasurer.
- Ensure that all district monies are secure by obtaining a collateralization agreement with its bank for all amounts on deposit in excess of amounts covered by the FDIC. The limit on FDIC coverage increased from \$100,000 to \$250,000 per depositor on October 3, 2008, and is in effect through December 31, 2009.
- Prepare complete and accurate written bank reconciliations monthly to reconcile bank and book balances; any discrepancies should be properly investigated and resolved.
- Establish formal, written policies governing the use of credit cards by authorized employees that specify purposes for using the cards and dollar limits for charges.

- Require employees using district credit cards to promptly submit receipts to the business office and indicate on them the employee making the purchase and the specific district purpose for the expenditure.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

# FINDING 3

## The District should ensure the accuracy of its accounting records and improve its financial reporting

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budgets, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. For example, the District did not always properly record expenditures, and the County School Superintendent (CSS) recorded the District's state equalization,

The District misrecorded revenues and expenditures and did not accurately prepare nor timely file financial reports with ADE.

state aid, and summer school revenues in the wrong fiscal year; however, the District did not notify the CSS of the correct fiscal year in which to record the revenues, and no adjustments were made to correct the errors. In addition, the District did not include budgeted expenditures for one fund on the AFR, and the actual expenditures for several funds reported on the AFR did not agree with the District's accounting records. Also, the District did not reduce its current budget by the prior year's overexpenditure in one fund. Further, the total budgeted expenditures on the adopted budget for several funds exceeded the budgeted amounts on the published proposed budget for the same funds.

The District also has a responsibility to publish and report budgeted and actual financial information in a timely manner to allow taxpayers to review the activities of the District and to comply with state laws. However, the District failed to file its proposed, adopted, and revised expenditure budgets and AFR within the required time frames. The District also did not retain documentation of the publication of its AFR or AFR summary, or of when the publisher's affidavit of publication of the AFR was submitted to the Arizona Department of Education (ADE).

## Recommendations

To help ensure the accuracy of its accounting records and improve its financial reporting, the District should:

- Record all transactions in accordance with the USFR Chart of Accounts.
- Notify the CSS of the correct fiscal year in which to record revenues during the 60-day encumbrance period following June 30.

- Ensure that budgeted and actual expenditures reported on its AFR agree with the most recently revised adopted expenditure budget and accounting records, and assign a second employee to review the AFR before submitting it to ADE.
- Reduce its current year budget by the prior year's overexpenditure, or a portion of the prior year's overexpenditure, as approved by the Superintendent of Public Instruction.
- Ensure that total budgeted expenditures on the adopted budget for each fund are less than or equal to the budgeted amounts on the published proposed budget for the same funds.
- Submit its proposed expenditure budget, or proposed budget summary, and adopted expenditure budget to the Superintendent of Public Instruction and the CSS no later than July 5 and July 15, respectively.
- Adopt a revised budget on or before December 15 and submit it to the Superintendent of Public Instruction and the CSS no later than December 18, if ADE notifies the District that the adopted budget is in excess of its budget limits by \$1,000 or more.
- Prepare and file its AFR with the Superintendent of Public Instruction and the CSS no later than October 15.
- File the publisher's affidavit of publication of the AFR with the Superintendent of Public Instruction within 30 days after publication and retain documentation to support that the affidavit was filed.

# FINDING 4

## The District's controls over student activities and auxiliary operations monies should be strengthened

Poor cash controls left student and district monies susceptible to loss, theft, or misuse.

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. Specifically, the District did not always retain proper supporting documentation for student activities cash receipts and did not always deposit student activities monies in a timely manner. In addition, several student clubs had negative account balances, and the Student Activities Summary Report was not always presented to the Governing Board monthly. Further, monies deposited in the auxiliary operations bank account were not always raised in connection with a bookstore or athletic event. Finally, the District was not always able to locate supporting documentation for auxiliary operations cash receipts.

### Recommendations

To improve controls over student activities and auxiliary operations monies, the District should:

- Require student clubs to document sales at student activities events and prepare an activity report or cash collection report to reconcile sales to cash collections. For events where it is not practical to determine the items sold, such as bake sales, clubs should still prepare a cash collection report to document cash collected.
- Deposit student activities cash receipts daily, if significant, or at least weekly.
- Ensure that individual student clubs have sufficient cash balances before authorizing disbursements.
- Prepare and submit to the Governing Board a monthly report of cash receipts, disbursements, transfers, and cash balances for student activities.
- Ensure that the auxiliary operations bank account is used only to account for monies raised in connection with bookstore and athletic activities.
- Prepare daily sales reports and cash collection summaries to reconcile auxiliary operations sales to cash collected.

A sample student activities cash collection report is on USFR page X-H-21.

A sample auxiliary operations cash collection report is on USFR page X-G-22.

# FINDING 5

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. For example, the dates on student withdrawal forms did not always agree with the dates in the District's computerized attendance system, and the District did not always enter student withdrawal dates into its computerized attendance system within 5 working days. In addition, the District did not always retain attendance records to support that students absent for 10 or more consecutive days were withdrawn as of the first day of nonattendance. Finally, the District did not always properly calculate elementary and junior high school absences or absences for Joint Technological Education District (JTED) students.

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

## Recommendations

To help ensure that the District receives the correct amount of state funding, the District should:

- Ensure that information in the District's electronic and paper records agree.
- Record student withdrawals in its computerized attendance system within 5 working days of the withdrawal and document the date it was entered.
- Retain documentation to support that students with ten consecutive unexcused absences are properly withdrawn and only counted in membership through the last day of actual attendance.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
  - For elementary and junior high students, students who attend class less than one-half of a day should be counted as absent for a full day; students in attendance for at least one-half day, but less than three-quarters of a day should be counted as absent for one-half day; and students in attendance for at least three-quarters of a day should be counted in attendance for a full day.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record attendance for students enrolled in first through eighth grades, if attendance is based on quarter-days, as follows:
  - For elementary and junior high students, students who attend class for less than three-quarters of a day should be counted absent for each quarter of the day not in attendance. Students in attendance for at least three-quarters of the day should be counted in attendance for a full day.
- Ensure absences for high school students who are enrolled in a program provided by a JTED are recorded and documented in accordance with the chart provided in ADE's *Instructions for Required Reports* based on the number of district classes the student was enrolled in and attended.